

Italy North TSOs informal survey on market participants hedging needs (Article 16(2)(a) FCA)

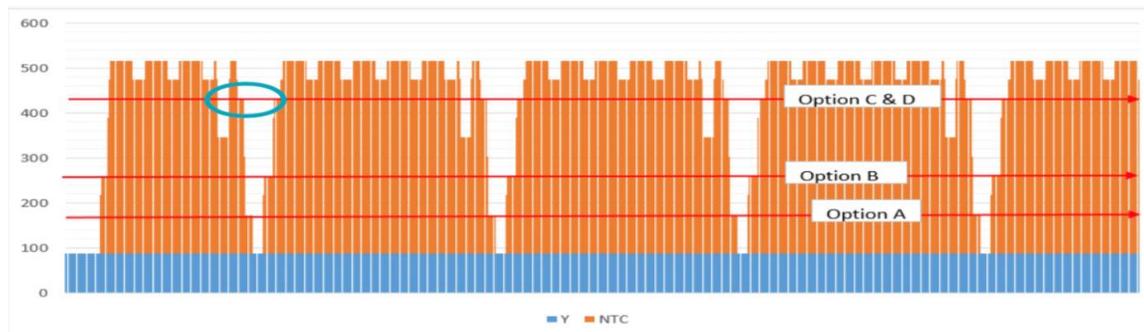
EFET comments – 27 January 2019

If it is assumed that the products sold as long-term transmission rights are the yearly and monthly products, how would you as a market participant choose to split between the two products to best meet the hedging needs in the market? Please justify your choice

Answer. Hedging is about assessing and covering against a variety of risks: price risk, volume risk, regulatory risk, etc. The further away from real time, the greater the uncertainty and therefore the greater the interest and importance for market participants to cover those risks. It is therefore vital that TSOs make available to the market the maximum capacity they can as far in advance of real time as possible (at least one year), as per their calculation at that time, by means of issuing forward transmission rights.

Further release of capacity at shorter time horizons in the forward timeframe (monthly, weekly) should be the result of capacity recalculations, or gradual release of 3 the margins and constraints initially applied by the TSOs for year-ahead allocations when uncertainties reduce as real time gets nearer. Therefore, we do not believe that a single capacity calculation a year in advance with arbitrary splitting and no recalculation for month- or week-ahead rights is the right way forward.

If you had to pick one of the below options, which one would you prefer?



Answer. We believe that TSOs should strive to reduce the trade-off between quantity and quality of allocated transmission rights to the maximum possible extent. On other European borders, we are not aware of such long maintenance and reduction periods as the ones present at the Italian Northern Borders.

Could you indicate the minimum percentage of available hours (compared to all hours of the period) for a yearly and a monthly product to be suitable for the hedging needs of market participants?

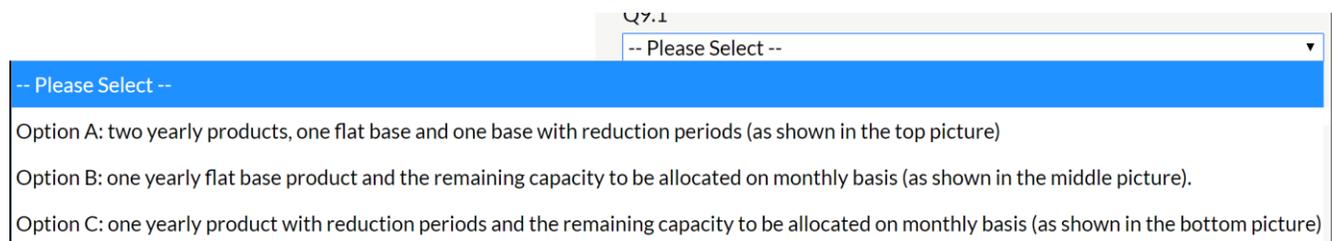
Answer. As expressed above, it is vital that TSOs make available to the market the maximum capacity they can as far in advance of real time as possible. Discussing about a ‘floor’ of capacity offered is in our view not the right approach. TSOs, as regulated monopolies, have the mandate to allocate the maximum available cross-border capacity and receive the payment in case of congestion. Hence, we are neither in the position nor willing to indicate a suitable minimum percentage of available hours.

Could you indicate the maximum number of reduction periods that are acceptable for a yearly and monthly product?

Answer. In our view, reductions should be restricted to the maximum possible extent in order to give market participants good hedging instruments from a qualitative point of view.

From an hedging point of view, option A involving the reduction period of a daily resolution would be preferable.

Let’s take as example the NTC values shown in the images below: In this situation, which of the following options would you prefer?



Q7.1

-- Please Select --

-- Please Select --

Option A: two yearly products, one flat base and one base with reduction periods (as shown in the top picture)

Option B: one yearly flat base product and the remaining capacity to be allocated on monthly basis (as shown in the middle picture).

Option C: one yearly product with reduction periods and the remaining capacity to be allocated on monthly basis (as shown in the bottom picture)

Answer.

Option A is already in place on some borders and works well, providing both types of yearly product, flat and with maintenance.

Option B would provide better hedging opportunities, as the maintenance periods would be schedule within the allocated monthly capacity.

Option C would provide insufficient hedging opportunities and would not be acceptable.

In such case, would you agree to reduce the yearly product of the following year leaving more capacity on the monthly products?

Answer. No, the Requested Capacity Ratio (RCR) would be made on ex-post calculations, especially regarding the monthly capacity requested. Market dynamics instead change continuously: we doubt that the proposed criteria put forward by the TSOs relying on past data, take account of the actual reality of hedging and portfolio management by market participants.

Instead, hedging is about assessing and then protecting against a variety of risks in the market: price risk, volume risk, regulatory risk, etc. The further away from real time, the greater the uncertainty and therefore the greater the interest and importance for market participants to hedge themselves. It is therefore vital that TSOs make available to the market the maximum capacity they can as far in advance of real time as possible (at least one year), as per their calculation at that time, by means of issuing forward transmission rights. Hedging is also dynamic, so market participants will continue to refine their hedges as real time gets closer.

As EFET itself is not a market participant, we cannot give the TSOs further details on our hedging strategy.

Do you think that the Requested Capacity Ratio criterion could contribute to the splitting methodology?

Answer. NO. See answer above

Do you as a market participant agree with this minimum quantity limitation?

Minimum Quantity (MQ)

Italy North TSOs are considering to use a minimum quantity limitation when offering a long-term product. This limitation ensures that, if the capacity calculation allows a product, this product will be offered with a pre-defined minimum threshold (e.g. 10 MW). If the capacity available is lower than the threshold, no long term product is offered and the capacity is given to the day-ahead market.

Answer. We strongly disagree with this proposal and approach. TSOs should strive allocating at least a minimum of long-term capacity on each border in each timeframe. We do not see any benefit in withholding capacity for day-ahead coupling. The sooner long term capacity is allocated, the better for the hedging needs of market participants.

Do you retain that the proposed criteria for the splitting methodology are enough to meet the hedging needs of market participants?

Answer. See answers above

Do you have any suggestions for additional splitting criteria that help Italy North TSOs ensure the hedging needs of the market participants?

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Do you have any other things in relation to this topic that you would like to make Italy North TSOs aware of?

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